

City of Hamtramck, Michigan

Federal Awards Supplemental Information June 30, 2003

City of Hamtramck, Michigan

Contents

Independent Auditor's Report	I
Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements	2-3
Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards	4-6
Schedule of Expenditures of Federal Awards	7
Reconciliation of General Purpose Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	8
Note to Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10-14
Auditee Summary Schedule of Prior Audit Findings	15-16



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Independent Auditor's Report

To the Emergency Financial Manager,
Honorable Mayor, and City Council
City of Hamtramck, Michigan

We have audited the general purpose financial statements of the City of Hamtramck, Michigan for the year ended June 30, 2003 and have issued our report thereon dated December 12, 2003. In our opinion, because of the omission of the government-wide statements and the full accrual data for the combining statements of the discretely presented components units; the omission of general infrastructure assets and accumulated depreciation on general fixed assets; the fund-type presentation of its governmental and proprietary funds; the effects of not recording Enterprise Fund capital assets prior to 1986; the expenditure categories being aggregated on a different basis than that used in adopting the budget; and the City of Hamtramck, Michigan's net pension obligation being less than the actuarially required amounts, the general purpose financial statements do not present fairly the financial position of the City of Hamtramck, Michigan as of June 30, 2003. Those general purpose financial statements are the responsibility of the management of the City of Hamtramck, Michigan. Our responsibility was to express an opinion on those general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Hamtramck, Michigan taken as a whole. Our expression of an adverse opinion related solely to those items listed in the first paragraph above, and did not relate to the modified accrual basis presentation of any individual governmental fund. The accompanying schedule of expenditures of federal awards and reconciliation of general purpose financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

December 12, 2003



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**Report Letter on Internal Control and Compliance with Laws and
Regulations - General Purpose Financial Statements**

To the Emergency Financial Manager,
Honorable Mayor, and City Council
City of Hamtramck, Michigan

We have audited the financial statements of the City of Hamtramck, Michigan as of and for the year ended June 30, 2003 and have issued our report thereon dated December 12, 2003. In our opinion, because of the omission of the government-wide statements and the full accrual data for the combining statements of the discretely presented components units; the omission of general infrastructure assets and accumulated depreciation on general fixed assets; the fund-type presentation of its governmental and proprietary funds; the effects of not recording Enterprise Fund capital assets prior to 1986; the expenditure categories being aggregated on a different basis than that used in adopting the budget; and the City of Hamtramck, Michigan's net pension obligation being less than the actuarially required amounts, the general purpose financial statements do not present fairly the financial position of the City of Hamtramck, Michigan as of June 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Hamtramck, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 03-01 and 03-02. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City of Hamtramck, Michigan in a separate letter dated February 6, 2004.

To the Emergency Financial Manager,
Honorable Mayor, and City Council
City of Hamtramck, Michigan

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hamtramck, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Hamtramck, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-03 through 03-06.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-03 through 03-06 to be material weaknesses.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Hamtramck, Michigan in a separate letter dated February 6, 2004.

This report is intended solely for the information and use of the Emergency Financial Manager, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 12, 2003

**Report Letter on Internal Control and Compliance with Laws and
Regulations - Major Federal Awards**

To the Emergency Financial Manager,
Honorable Mayor, and City Council
City of Hamtramck, Michigan

Compliance

We have audited the compliance of the City of Hamtramck, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The major federal programs of the City of Hamtramck, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hamtramck, Michigan's management. Our responsibility is to express an opinion on the City of Hamtramck, Michigan's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hamtramck, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hamtramck, Michigan's compliance with those requirements.

The City of Hamtramck, Michigan was unable to locate the original and unable to obtain a copy of the grant agreement for the Public Works and Economic Development Grant, which is a major federal program. We have reviewed and followed the Requirements for Approved Construction Projects published by the U.S. Department of Commerce and the A-133 Compliance Supplement in testing general provisions of the grant. However, there may be special provisions in the grant document itself of which we are unaware and were unable to test. Therefore, we are unable to, and do not, express an opinion relative to those special provisions.

To the Emergency Financial Manager,
Honorable Mayor, and City Council
City of Hamtramck, Michigan

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City of Hamtramck, Michigan's compliance with the special provisions related to the Public Works and Economic Development Grant, if any, the City of Hamtramck, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, which is described in the accompanying schedule of findings and questioned costs as item 03-08.

Internal Control Over Compliance

The management of the City of Hamtramck, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hamtramck, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Hamtramck, Michigan's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-07, 03-09, and 03-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-07, 03-09, and 03-10 to be material weaknesses.

To the Emergency Financial Manager,
Honorable Mayor, and City Council
City of Hamtramck, Michigan

This report is intended solely for the information and use of the Emergency Financial Manager, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

March 10, 2004

City of Hamtramck, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Wayne County:				
Community Development Block Grant - 2002	14.218	None	\$ 424,000	\$ 149,168
Community Development Block Grant - 2001			299,000	<u>75,864</u>
Total U.S. Department of Housing and Urban Development				225,032
U.S. Department of Commerce Economic Development Administration - Public Works and Economic Development Grant	11.300	N/A	1,770,000	270,525
Federal Equitable Sharing Program	16.unknown	N/A	91,342	91,342
U.S. Department of Justice:				
Small Communities Grant - 1993-CG-WX-0258	16.710	N/A	78,111	54,163
COPS Fast Grant - 1995-CF-WX-5947	16.710	N/A	150,000	-
Local Law Enforcement Block Grant 2000-LB-VX-0305	16.592	N/A	98,634	34,683
Local Law Enforcement Block Grant 2002-LB-BX-2565	16.592	N/A	<u>51,499</u>	<u>-</u>
Total U.S. Department of Justice			378,244	88,846
U.S. Environmental Protection Agency - Passed through Wayne County Brownfield Redevelopment Authority - Brownfield Pilots Cooperative Agreement - Revolving Loan Fund Program	66.811	3208F2	440,000	21,306
Federal Emergency Management Agency - 2002 Assistance to Firefighters Grant	83.554	N/A	67,440	63,390
U.S. Department of Health and Human Services - Passed through Michigan Office of Services to the Aging - Passed through the Detroit Area Agency on Aging - Chore Grant	93.044	2003 Contract	41,263	<u>35,014</u>
Total federal awards				<u>\$ 795,455</u>

City of Hamtramck, Michigan

Reconciliation of General Purpose Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,148,496
Add federal revenue recorded as deferred revenue	77,989
Less small communities program revenue recorded as deferred revenue	(23,947)
Less COPS fast revenue recorded as deferred revenue	(40,500)
Less federal equitable sharing program revenue received in excess of expenditures	<u>(366,583)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 795,455</u></u>

City of Hamtramck, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Hamtramck, Michigan and is presented on the same basis of accounting as the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

City of Hamtramck, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Adverse

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grant
11.300	Public Works and Economic Development Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Hamtramck, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section II - Financial Statement Audit Findings

Reference Number	Findings
03-01	<p>Finding Type - Noncompliance</p> <p>Condition - During fiscal year 2003, the City did not have a formal, written investment policy.</p> <p>Description - On February 2, 2004, the City adopted a written investment policy to comply with P.A. 196 of 1997. We recommend, and the City concurs, that the written investment policy should be provided to all financial institutions used by the City, or intermediaries that it deals with, and acknowledgement should be received that they agree to comply with the terms of the policy.</p>
03-02	<p>Finding Type - Noncompliance</p> <p>Condition - Property taxes are not being distributed to other taxing entities on a timely basis.</p> <p>Description - We recommend, and the City concurs, that property taxes should be distributed to the appropriate taxing entities within 10 business days of the 1st and 15th of each month.</p>
03-03	<p>Finding Type - Reportable condition, material weakness</p> <p>Condition - A budget is prepared at the beginning of the City's fiscal year; however, the accounting and reporting system in place to monitor actual revenues and expenditures compared to the budget is not set up on the same basis as the budget. Expenditure categories are being aggregated on a different basis than that used in preparing the budget. As a result, the City is not able to monitor its budget compliance effectively.</p> <p>Description - We recommend, and the City concurs, that expenditures need to be aggregated on the same basis as that used to prepare the budget and the accounting system needs to be set up to match the budget or the budget changed to match the accounting records.</p>

City of Hamtramck, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
03-04	<p>Finding Type - Reportable condition, material weakness</p> <p>Condition - Between the months of July 2002 and March 2003, bank reconciliations were prepared but the reconciling items were not posted to the general ledger on a timely basis.</p> <p>Description - Effective March 2003, all bank reconciliations were brought current and have been prepared and posted timely for subsequent months.</p>
03-05	<p>Finding Type - Reportable condition, material weakness</p> <p>Condition - The accounts payable system is not used to track accounts payable during the year or to accumulate a subsidiary ledger to support the accounts payable balance recorded in the general ledger. Invoices are entered into the accounts payable system only when they are to be paid and the subsidiary ledger contains items that have previously been paid.</p> <p>Description - We recommend, and the City concurs, that all payables need to be entered into the computerized accounts payable system and the detailed list of payables should be reconciled to the general ledger on a timely basis.</p>
03-06	<p>Finding Type - Reportable condition, material weakness</p> <p>Condition - The City did not reconcile the Water and Sewer Fund accounts receivable subsidiary trial balance to the general ledger.</p> <p>Description - In order to maintain adequate internal control, monthly reconciliations between the accounts receivable subsidiary ledger and the general ledger should be prepared. We recommend, and the City concurs, that account reconciliations be prepared on a timely basis in the future.</p>

City of Hamtramck, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section III - Federal Program Audit Findings

Reference Number	Findings
03-07	<p>Program Name - Community Development Block Grant</p> <p>Pass-through Entity - Wayne County, Michigan</p> <p>Finding Type - Reportable condition, material weakness</p> <p>Criteria - Federal guidelines require the City to establish internal controls to ensure cash management/program income is handled properly.</p> <p>Condition - During the current year, the City received approximately \$4,600 in revolving loan repayments, which were not netted with allowable expenditures prior to making additional drawdowns or repaid to the granting agency. The City also has significant deferred revenue which could relate to prior receipts of program income.</p> <p>Questioned Costs - None</p> <p>Context - Testing of drawdown requests and review of the deferred revenue general ledger account showed all expenditures had corresponding reimbursement requests and the balance of deferred revenue increased due to current year revolving loan repayments.</p> <p>Cause/Effect - The City does not have procedures in place to alert the community development director of receipts of program income. The director was unaware of the receipts and, therefore, did not net them with the drawdown requests.</p> <p>Recommendation - We recommend, and the City concurs, that the City establish procedures to ensure the community development director is made aware of the program income receipts so he can properly net the receipts prior to making any additional drawdowns. We also recommend the City research the significant balance in the deferred revenue account to determine where the funds originated and spend/repay the funds as necessary.</p> <p>Grantee Response - The City concurs with this recommendation.</p>

City of Hamtramck, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
03-08	<p>Program Name - Public Works and Economic Development Grant</p> <p>Finding Type - Material noncompliance</p> <p>Criteria - The City is required to file project performance reports within 15 days after the end of each quarter.</p> <p>Condition - The City did not file any project performance reports during the year.</p> <p>Questioned Costs - None</p> <p>Context - Since the City did not have, and was unable to obtain, a copy of the grant agreement, the reporting requirements were not known.</p> <p>Cause/Effect - The grantor has the right to withhold grant disbursements from recipients with delinquent performance reports. However, no amounts have been withheld as of June 30, 2003.</p> <p>Recommendation - We recommend that the City file all required performance reports.</p> <p>Grantee Response - The City concurs with this recommendation.</p>
03-09	<p>Between the months of July 2002 and March 2003, bank reconciliations were not prepared on a timely basis. See general purpose financial statement audit finding 03-04.</p>
03-10	<p>The accounts payable system is not used to track accounts payable during the year or to accumulate a subsidiary ledger to support the accounts payable balance recorded in the general ledger. See general purpose financial statement audit finding 03-05.</p>

City of Hamtramck, Michigan

Auditee Summary Schedule of Prior Audit Findings Year Ended June 30, 2003

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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(1) Audit findings that have been fully corrected:

06/30/02	02-4	Delinquent personal property tax receivable balances were recorded in the general ledger; however, the balances are not adjusted for collections and write-offs during the year. No reports are generated by the City during the year to calculate the actual receivable and to support adjustments to the general ledger.	14.218	N/A	The City has changed their accounting policy related to delinquent personal property tax receivables and no longer records them in the general ledger.
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(2) Audit findings that are in the process of being corrected:

06/30/02	02-1	The City does not have a formal, written investment policy.	14.218	N/A	The City is currently drafting an investment policy.
06/30/02	02-5	Bank reconciliations were not done on a timely basis during the year.	14.218	N/A	Effective March 2003, all bank reconciliations were brought current and have been prepared timely for the subsequent months.

(3) Audit findings that have not been corrected:

06/30/02	02-2	Property taxes are not being distributed to other taxing entities on a timely basis.	14.218	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.
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City of Hamtramck, Michigan

Auditee Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2003

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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(3) Audit findings that have not been corrected (Continued):

06/30/02	02-3	A budget is prepared at the beginning of the City's fiscal year; however, the accounting and reporting system in place to monitor actual revenues and expenditures compared to the budget are not set up the same basis as the budget. Expenditure categories are being aggregated on a different basis than that used in preparing the budget. As a result, the City is not able to monitor its budget compliance effectively.	14.218	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.
06/30/02	02-6	The accounts payable system is not used to track accounts payable during the year or to accumulate a subsidiary ledger to support the accounts payable balance in the general ledger. Invoices are entered into the accounts payable system only when they are to be paid and the subsidiary ledger contains items that have previously been paid.	14.218	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.
06/30/02	02-7	The City did not reconcile the Water and Sewer Fund accounts receivable trial balance to the general ledger.	14.218	N/A	Due to the City's severe economic condition and limited staffing, this issue has not yet been addressed.